



PASADENA  
COMMUNITY  
FOUNDATION

# DONOR ADVISED FUND HANDBOOK

Updated October 2019



# Donor Advised Giving: HOW IT WORKS



The donor sets up a Donor Advised Fund with PCF by completing a PCF Fund Agreement. The fund may be an endowed or expendable fund.

1

The donor makes an irrevocable gift of cash, securities, or other assets to the Pasadena Community Foundation (PCF) for charitable purposes. The net proceeds from the donation will be deposited to the individual fund.



2

The donor receives a letter acknowledging the donation to the Pasadena Community Foundation. The acknowledgement letter serves as a record for legal and tax purposes.



4

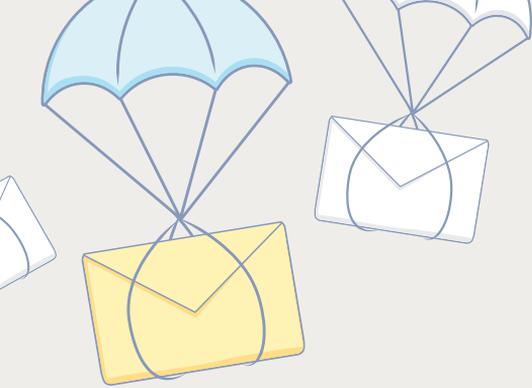
PCF staff reviews the recommendations using criteria established by our Board of Directors in accordance with IRS guidelines. Please read Grant Review Process (page 3) and information on “permissible and prohibited grants” (pages 4-5).



5

Once a grant is approved, PCF sends a check to the approved charity. Every effort is made to process the grant recommendation within two weeks.





3

The donor may recommend grants through PCF's Fundholder Portal or may submit written grant recommendations via email or fax using the PCF Donor Recommendation Form, which can be found on PCF's website: [pasadenacf.org](http://pasadenacf.org).



6

PCF asks the charity to acknowledge the donor directly unless the donor has requested anonymity. However, the acknowledgement letter from PCF received in Step 2 is the record that the donor will need for tax purposes.



## Additional Contributions

Many donors choose to make on-going contributions to their fund. A gift of restricted, closely held stock, real estate, or other unusual assets may require additional review by PCF's Board. Assets that cannot be readily liquidated or that carry potential liability are governed by the Foundation's Gift Acceptance Policy.

A donor advised fund can be named the beneficiary of your estate. We are happy to discuss a range of financial and estate planning vehicles such as charitable trusts with you and your professional advisors.

## Rollover Restrictions

The Charitable IRA Rollover allows individuals age 70½ and older to make direct transfers of up to \$100,000 per year (and up to \$200,000 per year for married couples) from individual retirement accounts to qualified charities without having to count the transfers as income for federal tax purposes. However, the IRS prohibits charitable rollovers to donor-advised funds, supporting organizations, and private foundations.

# IRS REGULATIONS

## on Donor Advised Funds

Legislation passed in 2006, the Pension Protection Act, and the Donor-Advised Fund Guidance – Notice 2017-73 of 2017, created some restrictions on grants from donor advised funds. PCF has created guidelines for donor advised grant making which comply with IRS regulations and which require reasonable oversight by PCF. PCF verifies the tax status of all non-profit organizations recommended by donors to receive grants from their donor advised fund.

### *Permissible Grants:*

Grants to Section 501(c)(3) public charity organizations that are not private foundations and that are also designated as 509(a)(1) “traditional organizations” or 509(a)(2) “gross receipts organizations.”



#### 509(a)(1) “traditional organizations” include:

170(b)(1)(A)(i)	Churches
170(b)(1)(A)(ii)	Schools
170(b)(1)(A)(iii)	Hospitals
170(b)(1)(A)(iv)	Support organizations to schools
170(b)(1)(A)(v)	Governmental units
170(b)(1)(A)(vi)	Publicly supported organizations

## Prohibited and Restricted Grants:



The IRS restricts the types of grants that can be made from a donor advised fund. The Pension Protection Act of 2006 and Donor-Advised Fund Guidance – Notice 2017-73 of 2017 further specified and prohibited certain types of grants from donor advised funds.

### 1 Gifts which provide personal benefit to the donor, advisors, or related parties are prohibited.

Common examples of prohibited gifts from donor-advised funds include:

- Purchase of memberships (in some cases)
- Tickets to fundraising events (e.g. galas, golf tournaments, dinners)
- Goods purchased at charitable auctions and other fundraising events



### 2

In 2017, the IRS issued a notice regarding the bifurcation of gifts from donor advised funds. The regulations state that distributions from a DAF that pay for the purchase of tickets for a donor or donor advisor (or certain related persons) to attend or participate in a charity-sponsored event would result in a “more than incidental benefit” to the donor or donor advisor and thus incur an excise tax under section 4967. **This result would apply even if the DAF limited its distribution to cover only the portion of the ticket price that would be eligible for a charitable contribution deduction if made by the donor or donor advisor directly.** This result would also apply to distributions to cover a deductible portion of membership fees charged by a charity. To comply with this notice PCF will not bifurcate gift recommendations.

3

According to Notice 2017-73, the IRS is allowing distributions from a DAF that the recipient charity treats as fulfilling a pledge. However, the sponsoring organization (PCF) may not reference any individual's pledge when making the DAF distribution.



4

Gifts to a private foundation (because they receive different tax treatment)

5

Gifts for lobbying purposes or to support political campaigns

6

The Pension Protection Act of 2006 specifically prohibits:

- Grants to individuals which includes both grants made directly to an individual and grants made to an organization, such as a school, for the benefit of a specified individual.
- Grants, loans, compensation or similar payments to donors, advisors, or related parties. Per IRS regulations, this includes a prohibition against grants, loans, compensation or similar payments to donors that are not individuals.
- Grants for non-charitable purposes.



## *Expenditure Responsibility Grants:*

The IRS does allow grants to be made to non-charities, e.g., grants to for profit, 509(a)(4) public safety organizations and other 501(c) organizations for charitable purposes. However, grants to non-charities require expenditure responsibility.

Expenditure responsibility means that the Foundation must exercise significant follow-up and oversight and maintain additional documentation to ensure that the grant awarded was used for charitable purposes. This also places an additional reporting burden on the receiving agency.

**Therefore, PCF does not allow grants from DA Funds that require expenditure responsibility.**



## *International Grants:*

PCF does not allow grants from DA Funds to charitable organizations outside the United States. **These grants also require expenditure responsibility.**

# ACTIVE FUNDS POLICY

The National Standards for U.S. Community Foundations consider a fund active “when there is regular communication between donor (or named successors) and Foundation regarding the existence and purpose of that fund.” Pasadena Community Foundation considers a fund inactive once there has been no grant making from the fund in three calendar years. The minimum grant distribution from a fund will be \$100 to be considered an active fund.

**This policy will apply to all types of Donor Advised Funds held by PCF.**

- 1 **Expendable**  
(charitable checking)
- 2 **Investment**
- 3 **Endowment**

## *No activity:*

If a fund has been inactive (no grants out of the fund) for two full calendar years based on the year-end fund statement, the **Foundation will take the following action:**



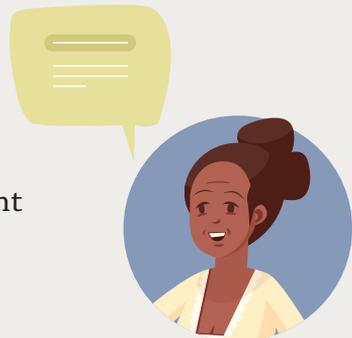
- 1 Foundation will contact the donor advisor and/or any successor advisor via a letter to accompany the year-end statement to notify the donor and encourage grant making. The donor will be advised of our inactive fund policy which requires at least one grant of \$100 for a fund to retain “active status.”

2 If the advisor is unresponsive and/or the fund does not make any grants for another year (three consecutive full calendar years with no grants), an additional attempt may be made to contact the advisor and/or any successor advisor to present grant making options for the fund.

3 In the event that the advisor or successor advisor cannot be located or is unresponsive, the fund will be considered as no longer having a Fund Advisor. The fund will be transferred as per the Foundation's variance power to the Foundation's Unrestricted Quasi-Endowment Fund.

There may be valid reasons for a fund to refrain from grant making for a period of time. In some cases, the fund advisor may indicate a desire to build the fund for future and deliberate grant making activity or the fund may be a small placeholder for a future bequest. Such funds may be exempt from the minimum grant distribution.

**Please feel free to contact PCF if you would like to discuss the goals for your DAF.** We can create an addendum to your fund agreement with an explanation of periods of acceptable inactivity.



# FREQUENTLY ASKED QUESTIONS

## Who may sign and submit a recommendation for your fund?

The persons who are named in your Fund Agreement may submit the grant recommendation(s). Donors may also name successor advisors to the fund who may act in the future as advisors to the fund.

## Can I make grants from my fund to organizations outside of the Pasadena area?

Yes. PCF is able to distribute to charities anywhere in the United States.

## Can I purchase tickets to a gala or special event through my Donor Advised Fund?

No. IRS regulations specifically preclude gifts which include personal benefit or services rendered to the donor. Common examples include:

- Purchase of memberships (in some cases)
- Tickets to fundraising dinners or golf tournaments
- Goods purchased at charitable auctions and other fundraising events



# How to Access PCF's Fund Holder Portal

If you would like to have online access to your fund, call (626) 796-2097.

When setup is complete:

1. Go to website: [pasadenacf.org](http://pasadenacf.org)
2. Click on Fund Holder Portal button

My Login: \_\_\_\_\_

My Password: \_\_\_\_\_

## Notes

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PASADENA COMMUNITY  
FOUNDATION

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*Confirmed in compliance with the national  
standards for U.S. community foundations.*

